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## The Influence of Greek Banking Capital in Non- Eurozone Countries

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### **Abstract:**

*The Greek debt crisis is poised to undermine already dwindling investment flows into south-eastern Europe's emerging economies, adding to barriers to recovery in one of the continent's most fragile regions. Greek lending in Central and Eastern Europe is concentrated mainly in Romania and Bulgaria, both struggling to recover from sharp economic contractions and most exposed to any scaling back in funding as Greece's banks shore up their own finances. Greece has been a major investor in the region- it is the second biggest in Serbia- since the fall of communism in 1989. Its problems have so far had only a limited impact on nearby states and it is unclear how much of a drag it may create. The European Bank for Reconstruction and Development- B.E.R.D.- warned of potential hits to bank systems and economies and analysts have also raised concerns. Greek firms are also not expected to invest heavily in their usual target areas as they digest severe government cost cuts at home, while simple proximity to a country that has become the latest trouble spot on investors' radar may also be an issue. Greek banks could be the main canal to transmit the crisis in Romania. At the same time, the measures of prudentiality taken by Central Bank should counteract the possible difficulties for Romanian banking system.*

**Keywords:** *Greek Banking Capital, Non-eurozone countries, dept crisis.*

### **1. Foreword**

Within the Romanian banking system there are 4 important Greek banks: Alphabank, Bancpost owned by EFG Eurobank, Piraeus Bank and The Romanian Bank part of the NBG Group. Alongside these ones, other smaller banks are also active such as Marfin Bank, ATE Bank and Emporiki Bank, all of the accumulating a market quota, depending on their actives, of around 25% of the national bank market (most of them being credit banks).

Piraeus Bank Romania has 187 branches and it is the Romanian subsidiary of the Piraeus Greek Bank Group, which also deals with countries such as Albania, Bulgaria, Serbia, Egypt, The United States of America, Great Britain and The Ukraine. Greece finds itself in a difficult fiscal and financial crisis, becoming at the beginning of this year the target of speculative attacks. Due to the conveying within the market of the hypothesis of the state's default, the efficiencies required by the investors to finance Greece have risen considerably. The leaders of the European Union and The International Monetary Fund have signaled the Greek government

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that it may sustain some financial external aid to overcome this crisis. Analysts of the Danske Bank, the “pessimists on duty” regarding Romania, consider that the economy and the financial position of the country may be damaged by the persistent worrying towards Greece, this one being able to pressure the Romanian national currency, Leu.

At a share of about a quarter of the Romanian banking actives, Greece stricken by an economical crisis becomes a risk factor which did not hesitate to appear on “radars” of the large international banks.

## **2. The Romanian Banking System and the Financial Crisis of Greece**

What happens if the Greek bankers decide to cut the cords towards the local branches, which are under the pressure of bad advancing credits anyway, ask the foreign analysts? Will the Romanian currency fall? Will we be witness to an imbalance of the local banking system?

Deutsche Bank or Citibank have already started to warn the possible “contamination” of Romania with the Greek financial problems, considering the wide span of Greek banking businesses within the local market.

It is assumed that the effects of the crisis will show in the delay of the resuming of credit. Analysts were the first ones to pull the alarm signal: Greek banks with a large, important presence in Romania might reduce the credit volume because they will have to rely on local, poor, resources. Therefore the “Achilles’ heel” will represent the volume of credits granted by local Greek banks in Romania, twice larger than the ones for deposits.

What might be the actual effects of the crisis towards the works of the Romanian banking system, well those vary between the statements of the Romanian National Bank –which say that there is no imminent danger, and others which clearly foresee some negative effects to appear soon.

### *a. The National Bank and the Crisis*

The Central Bank concludes that there is no threat towards the good works of the Romanian Banking system due to the Greek financial crisis. The so called Greek banks which are active in Romania are actually 100% Romanian, with Greek shareholder. Their management is approved by the Romanian National Bank, and their activity is closely supervised by the central bank.

Also they were completely integrated within the Romanian economy through credits granted to Romanian citizens and Romanian companies from whom they also draw deposits. These banks have no ties with the Greek phenomenons. Representatives of the Romanian National Bank admit though that there is the possibility of the reduction of the financial lines from the mother-banks, but they don’t think that this will actually take place. On the contrary, it might actually be a rise of financing, which may be used more efficiently in Romania then other countries. Granting credits is a profit base for banks; these could not afford to give it

up. Banks with Greek shareholders are solid financially and we mustn't concern about them.

*b. Romanian Bankers and the Crisis*

The Romanian bankers are reserved. Thus the Greek banks will be confronted on one side with a rise in bad advancing credits, if the incomes will decrease and unemployment rises. On the other side, the Greek government will have to reduce investments this leading to the decrease of the Greek bank businesses therefore incomes as well. In consequence the financing lines for subsidiaries from Romania will decrease or even come to a halt, these having to rely mainly on resources, especially deposit attracted from the internal market.

The problem is that the Greek banks actively implicated in granting credits in the last years have a poor credit\deposit rapport, in other words, the credit volume is twice as large as deposits while the average of the banking system is of 110%. So this will bring difficulties for obtaining enough resources in order to resume credits. On the other hands the refinancing of the Greek banks could rise, which could again affect their activities. Yet it is considered that whatever will happen to the Greek banks, they could not greatly affect Romania, as they do not present particular problems.

Representatives of Bancpost claim that the reduction of the exposure on the Romanian market is not a problem, on the contrary. At the end of January 2010, the exposure of the mother-bank, EFG Eurobank, on Bancpost has risen with 150 million Euros compared to the level in March 2009 assumed within the agreement with the financial European authorities. I.M.F. and R.N.B. Until now they were not affected in any way by the crisis in Greece and they are not expecting too anytime soon. It is desired to increase double digits credit volumes for this year (even if its not possible to estimate the degree of objective fulfillment due to the fact that the credit risk is still high and the demand for loans is maintained at low levels)

The Bank has in Romania more deposits than credits and has sufficient resources in granting new credits, both from the attracted economies as well as reimbursed credits. Recent messages from the mother-bank show that this is determined to rise its activities in Romania despite the difficult times that pass now. Proof being also in its last initiative of the business fields of Romania and Greece to organize in Bucharest an exposition of food and drinks products with the purpose to facilitate the commercial exchanges between these two countries. Problems could be caused by Romania as there are risks here, not Greece, the Ukraine of any other country.

At its turn, Piraeus Bank shows that the bank has as much confidence in the economical potential of Romania as it did 10 years ago when it came here. In 2010 it proposes to prosecute its consolidation with its presence in the Romanian market by launching new products, as well as granting credits and deposits.

The other discussion, Alpha Bank has recently raised its social funds with approximately 70 million Euros, operation which allows the bank to raise its own

funds and insures it of a solvability of above average of the system. The new fund raise represents a new confirmation of its commitment towards Alpha Bank Group for its subsidiary in Romania and proof of long term trust.

All the 4 important banks are a part of the group of 9 financial institutions which have been committed toward the International Monetary Fund and the European Commission to not redraw existing financial lines in March 2009, which represents an important insurance for the Romanian Banking System. Also the heads of the Greek banks in Romania say that the representatives of the mother-groups are going to keep this promise also after the beginning of the crisis in Greece. Piraeus Bank will also keep its promise towards the Romanian economy and the International Monetary Fund. The difficult economical context which Greece passes has to be seen through the prism of a clear distinction: the crisis belongs to the public sector not the private one. On this fund the private sector in Greece, including the banking one records positive evolution adequate for the actual international environment.

### *c. Good solvency, few deposits*

According to the results presented by the Greek banks (within the first months of 2009) their situation is quite solid. Thus Alpha Bank had bad credits (with delays of more than 90 days) of 85 million euro, representing 2% of its portfolio. On the other hand the bank owned 1,481 billion euro, rising with 0.3% compared to last year while the volume of credits was bigger, 4,289 billion euro with 6% more than in 2008. The gross income has risen to 43 million euro. The bank has raised with 70 million its capital at the beginning of this year up to 235 million Euros. Romanian Bank disposes of a social capital of 748 million euro and a solvency indicator of 24%, a lot more above the average of the banking system, 14%. Representatives of the bank claim that the indicator of bad credits is at half of the average of the banking system. Regarding the credit/deposit rapport, at the end of September it was of 171% (2,163 million euro in credits and 1,027 million euro in deposits). But the bank has been substantially risen its deposit volume last year with 40% while the credits have remained at the same level. At the beginning of 2009 NBG has reduces with 408 million euro its exposure with the Romanian Bank from 1,332 billion euro at the end of 2008 to 925 million euro. The bank mentions its commitment towards the I.M.F. to hold its level till then end of 2009.

Bancpost had (at the end of September 2009) a sub unitary deposit/credits rapport. Thus the bank granted credits of 3,539 billion euro while its deposits rose to 1,979 billion. The bank had been accumulating net losses of 4, 3 million euro. Bad credits represented 10.8% of its portfolio. At Piraeus Bank, the indicator of solvency overcomes the system level (14, 03%) being situated at 17%. The percentages of bad credits are under the market average claim the bank representatives. At the beginning of the 9 months of 2009 the volume of bad credits was at 4.6%. The bank mentions that the rapport of credits/deposits has decreased in 2009 and it is situated

in line with the dynamics of the market. Romania could help Greece with 755 million euro within the plan of saving the economy of this country.

*d. European level proposed measures*

The plan to save Greece, comprising of 30 billion euro, is open to all countries that hold share at the European Central Bank, and the sum that each will give could depend on the amount of share held at the E.C.B. The Romanian National Bank capital at the European Central Bank is of 2.5%; so Romania could give Greece 775 million euro.

The German Ministry of Finance has prepared a plan according to which the member states of the Euro zone to give Greece external aids of 25-30 billion euro and their contribution of each country to the aid pack to be calculated depending on the amount of shares held at the European Central Bank.

The most important shareholders of the ECB are the central German banks (20.52%), France (14.38%), Great Britain (13.93%) and Italy (13.52%).

The Romanian National Bank Governor stated in Financial Times that the Vienna accord will now be tested for the 3<sup>rd</sup> time after it held down the first fall of the financial sector at a global level and then the political crisis in Romania. After this meeting in Vienna (March 2009) Erste Bank, Raiffeisen International, Eurobank, EFG National Bank of Greece, Unicredit, Societe Generale, Alpha Bank and Piraeus Bank have committed to the European Commission, International Monetary Fund and the Romanian National Bank to sustain the operation on the Romanian market and in case of emergency to supply the funds of the subsidiaries in Romania. As a result the situation when a bank will redraw from the market then no other bank has problem is unlikely. The redrawing of a bank is not made easily; it takes a lot of time and implies a certain procedure. Banks have deposits which have to be returned and credits to be cashed. As it regards the eventual risk of more bad news from Greece to engage more deposit redrows from greek banks, things are no longer considered to be as in the 90's and the population is conscientious that deposits are guaranteed within the limit of 50.000 euro( over 50.000 euro are only 2% of the total).

### **3. Conclusions**

*a. Arguments against the crisis*

The opinion that the Romanian banking system will not be affected by the crisis of the Greek banks is sustained by the followings:

- a. The large Romania banks with the R.N.B. have committed to sustain Romanian market operation and supply funds for Romanian subsidiaries
- b. Banks have deposits that need to be returned and have credits to cash, so they cannot redraw from the market
- c. The population know that deposits are guaranteed up to 50.000 euro

- d. Greek banks which are active in Romania are actually 100% Romanian banks with Greek shareholders; management approves by The Romanian National Bank and their activity closely supervised by the central bank

*b. Pro-crisis Arguments*

If we review all the arguments which sustain the effects of the crisis which will influence the banking system in Romania, these would be the following:

- a. Greek banks with an important presence in Romania could reduce the volume of credits and rely more on local resources which are poor; the weak point being the volume of credits granted by Greek banks in Romania twice as large as the deposits.
- b. Greek banks will have to deal with a raise in bad credits if the incomes are reduce and unemployment raises.
- c. The Greek government will have to reduce investments so Greek banking business will fall down and incomes as well.
- d. Financing lines for Romanian subsidiaries will decrease or dry out these having to rely only on local resources (internal market deposits).
- e. Poor credit/deposit rapport.
- f. Refinancing costs for Greek banks could rise.

As an integrated state in the European structures, Greece is supported by community “leavers” and economical instruments which have already been discussed and will support the banking system. In consequence the Romanian banking system is in a good position which allows to hold against pressures which may appear dues to the financial problems of Greece.

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